Analysis of WorldCom

An Honors Thesis (HONR 499)

by

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Abstract

Fraud affects everyone. Sometimes without them even knowing. Accounting fraud in the corporate world may seem infrequent, but some of the largest accounting scandals happened within years of each other. WorldCom was a telecommunications company that existed until the early 2000s. After several WorldCom employees committed accounting fraud, the company filed for the largest bankruptcy ever recorded in the United States. This accounting scandal demonstrates the importance of ethical standards and internal controls in the work place. Even if one thinks they will never commit fraud on a large scale, they will never know until they are in a situation where they feel they have no other choice.

Acknowledgements

I would like to thank Dr. Tiffany Westfall for advising me through the completion of my thesis. She motivated and supported me through this entire process, and I cannot thank her enough.

I would also like to thank Dr. James Duncan for providing resources necessary to complete this thesis. He was the one who gave me the idea of researching and writing about a company that experienced a fraud scandal.

My parents have also supported me through this journey and encouraged me to continue writing when I lost all motivation.

Process Analysis Statement

Deciding what I wanted to write my thesis about was one of the more difficult tasks. At first, I wanted to write about my traveling experiences from the past two summers, but even that was too broad of a topic. In the summer of 2018, I asked Dr. Jason Stanfield if he had ever been a thesis advisor and if he had any recommendations on what to write. Since I am considering being a professor in the future, he recommended a topic accounting related. I searched online for thesis ideas, but I did not find any of them interesting enough. In the fall of 2018, I asked Dr. James Duncan if he had any ideas. He told me to write about my internship experience and how a student in Indiana was able to acquire an internship in Georgia. When I presented this idea to the Honors College, Dr. Barb Stedman told me it was not substantial enough. I decided to mention my back-up plan. The back-up plan was to write about the Enron accounting scandal. Dr. Stedman approved this idea so, I wrote a proposal for it. After completing this proposal, I presented it to Dr. Duncan and Dr. Tiffany Westfall. Later they suggested I change to the WorldCom accounting scandal instead.

I then updated and submitted my proposal, received approval for my topic, and began reading the resources that I had. Dr. Westfall suggested I obtain the book that the WorldCom whistleblower, Cynthia Cooper, wrote. Over winter break I started reading the book, but with all our holiday family plans it was difficult to find time to focus on reading. Once the spring semester started, I finished the rest of the book (approximately 250 pages) in one afternoon. After I picked up the book and got past the first few chapters, it was very difficult to put it down.

I finished the book, then I scanned through the investigative report so I could learn more details about the fraud. I sat down with Dr. Westfall to come up with an outline. I was not sure how I wanted to structure my thesis, so I wrote it in separate sections. Of course, by writing it in separate sections, it did not make sense when I put it all together. I struggled with what order the sections/paragraphs should go in. I attempted to put it in a suitable order, but then asked Dr. Westfall for assistance. After Dr. Westfall's first review with suggestions, I was a bit overwhelmed. I needed to add several transition paragraphs and a few timelines and figures. However, once I started, it was easy to complete.

Throughout the completion of my thesis, I discovered a lot about my learning process. I normally procrastinate writing papers, but by setting a certain timeline to finish my thesis, I was able to stay on track. I realized I need to set deadlines for different tasks that I need to complete. If I set myself a deadline a few days before it is due, I will have time to review my work and I will not be as stressed when trying to complete my assignments. Writing continuously is easier for me than trying to write a page a day as I had previously thought would be a good idea. I was able to write more in detail when I focused on my thesis for several hours at a time. When I was making the corrections, I sat at my desk from 12 p.m. until 7 p.m. I put my phone on the other side of the room and focused solely on making the adjustments. During this time, I was able to complete almost all of edits that Dr. Westfall asked me to make. Some may find it best to write different pieces different days; however, I work best when I find time to complete it in one sitting.

Finding motivation was one of my biggest challenges. As a second semester senior, it has become more difficult to focus on school work. As the sun comes out, I am less focused on school work and more on enjoying time outdoors. I think I would have been more focused if I completed this in the fall semester when it was snowy and cold. Finding motivation is difficult when an employer has offered me a job and when I have committed to graduate school with a graduate assistantship. My roommate and my parents were always there to motivate me when I lost all focus. Normally, I was able to tell myself that I needed to get it done and that would help me focus, but sometimes they were the only people that could help me finish my thesis without doing it last minute.

While writing my thesis I learned how interesting I find fraud. I still have not decided on what my future is going to be in five years, ten years, or even fifteen years. I have only had one internship where I was able to audit low income housing. This summer I will be auditing governmental healthcare, but as of now I still am not sure what I want to do in the future. Having an accounting degree opens so many doors for me and I am not sure which path I want to choose. I know I want to work in external audit for a few years, but after that I am uncertain. I do have interest in eventually becoming a professor, but I would like to try internal and external audit/tax before I pursue that path. Writing this thesis has increased my interest in internal audit and fraud. I have always been interested in crime, but I never realized how accounting fraud would hold my attention. I have also learned that I am more interested in a future in audit than I am in tax. My journey has helped me narrow down my decision about my future career path.

While researching and completing this thesis I learned how to identify fraud and how to prevent it in my future career. When I pursue a career in audit, it will be important for me to remain skeptical and complete my audits while being aware of possible misstatements. If I ever work in an internal audit department, I now know to be aware of possible fraud. It is difficult to imagine anyone I work with committing fraud, but after reading and writing about the WorldCom accounting scandal, I realize that it is possible for anyone.

I also learned the importance of setting ethical standards for myself before beginning work and the importance of sticking to those standards no matter what happens. If I do not set specific standards for myself before I start, I could end up crossing a line that I do not want to cross. Ethics are important in the workplace. No matter how many times I tell myself I will not be one to commit fraud, one never knows what troubles lie ahead. When I set standards for myself, I can hold myself accountable and avoid any unethical decisions. I know that it is more important for me to say no to my boss than it is to keep my job. I can always find another job, but I will not be alright if I do something I know is wrong.

Have you ever borrowed money from a friend and not paid them back? Was this intentional or unintentional? On a smaller scale you can be committing an act of fraud. Fraud is more common than people may think. Small scale fraud acts occur all the time, but it is fraud on a large scale that attracts everyone's attention. The fraud scale can range from a relative stealing a family member's money to stealing millions of dollars from the company one works for.

Over the years there have been many noteworthy fraud scandals such as Enron, Wells Fargo, and Bernie Madoff, but the WorldCom scandal is one everyone should remember. The WorldCom scandal is known as one of the top ten accounting scandals of all time. WorldCom was at one point the second-largest telecommunication company in the United States. WorldCom executives and other members within the company adjusted the accounting numbers to report revenue growth. This scandal ended up leading the company to file for bankruptcy in 2002. WorldCom filed for bankruptcy only a month after its auditor's, Arthur Anderson, conviction due to the Enron scandal. WorldCom wrongly recorded their expenses as investments, which eventually led to tens of thousands of job losses and about $180 billion in losses for investors.

This scandal brings awareness to accounting fraud and serves as a reminder of the importance of ethics in accounting. The collapse of WorldCom shows just how easily a company, including the one of the largest companies, can be brought down from corruption. WorldCom was not always the conglomerate that everyone knows it to be. WorldCom started as an idea by a few men who saw promise in a growing market.

In 1983 a long-distance telephone provider known as Long Distance Discount Services, Inc. (LDDS) formed. LDDS made connections between a caller's local telephone company and the recipient's telephone company by purchasing long distance capacity and reselling it to customers. In 1985, Bernard (Bernie) Ebbers became the Chief Executive Officer (CEO) of the company that was already $1.5 million in debt after two years of business. In order to pull the company out of debt and help it widen its customer base, Ebbers purchased The Phone Company out of Jackson, Tennessee. Over the next twenty years, Ebbers helped the company expand by making approximately 70 acquisitions (Cooper, 2009, pp. 112).

An acquisition is a situation where one company purchases another company by purchasing most or all the company's shares to take control. In 1989, LDDS acquired Advantages Companies, Inc., which made LDDS a publicly traded company. Throughout the early 1990s, LDDS acquired MidAmerican, Communications Corporation, AmeriCall and FirstPhone, Metromedia Communications, Resurgens Communication Group, and many more. In 1994 and 1995, LDDS acquired IDB Communications Group and WilTel for $936 million and $2.5 billion, all respectively. These acquisitions helped LDDS grow in the market and profit through their purchases. Before the acquisitions, no one knew of LDDS. Even though the company acquired other small companies at first, those who did not know of the company, learned of the company when it purchased MCI Communications (Beresford, 2003, pp. 44-45). The biggest competitors that LDDS had were other major long-distance carriers such as Sprint, AT&T, and MCI. By 1995, LDDS had its "own network, an international presence, and an expanded product line." In May of 1995, LDDS changed its name to WorldCom (Cooper, 2009, pp. 112). Bernie Ebbers out bid British Telecom trying to purchase MCI by about $21 billion. Although the acquisition price was high, this purchase was rewarding in that it generated more profit for WorldCom and made the company one of the top competitors (Beresford, 2003, pp. 44-45). Even after the merger with MCI, WorldCom continued to acquire more companies. See Figure 1 for a detailed Acquisition Timeline.

Figure 1

Acquisition Timeline

1989

Formation of LDDS

Acquired: Advantages Companies, Inc.

1991-1992

Acquired: MidAmerican, Communications Corporation, AmeriCall and FirstPhone

Company Revenue: $948 million

1993

Acquired: Metromedia Communications and Resurgens Communications Group

Company Revenue: $1.4 billion

1994

Acquired: IDB Communications Group

Company Revenue: $2.2 billion

1995

Acquired: WilTel

Company Revenue: $3.7 billion

LDDS changed name to WorldCom

1996

Acquired: UUNET Technologies, Inc., and MFS Communications Company

Company Revenue: $4.5 billion

1997

Merger: MCI

Company Revenue: $7.4 billion

1998

Acquired: Brooks Fiber Properties, CompuServe Corporation, and ANS Communications, Inc.

Company Revenue: $18.2 billion

1999

Acquired: SkyTel Communications, Inc.

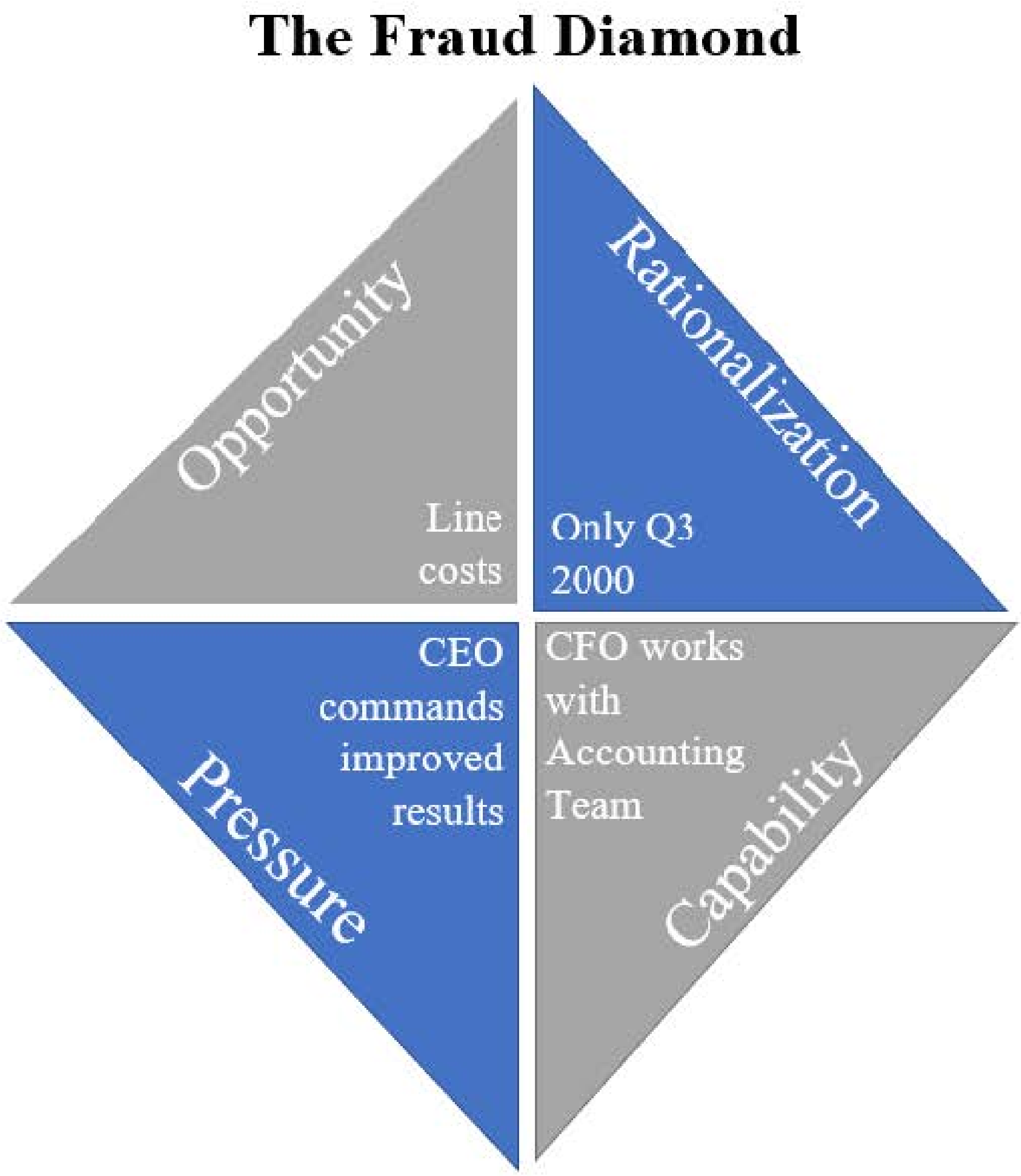
Company Revenue: $37.1 billion

WorldCom grew into one of the largest telecommunication companies in the United States. No matter how large a company is, fraud can occur. Concealing fraud can be easier in larger companies because of the amount of people and divisions that exist. This can make the fraud harder to prevent and detect.

Fraud is wrongful or criminal deception intended to result in financial or personal gain. In other words, it is an act of deceiving or misrepresenting information (Chen, 2018). Many factors can contribute to fraud. In the 1950s, Donald Cressey, an American penologist, sociologist, and criminologist, interviewed people who violated another person's trust to determine why he or she committed the crime. After the interviews, Cressey determined that there must be three factors present for fraud to happen. The three components of the fraud triangle are pressure, rationalization, and opportunity. Pressure is the motivation or incentive to commit fraud. Rationalization is the justification of the dishonest actions. Opportunity is the knowledge and ability to carry out fraud. For fraud to be committed there must be an opportunity to commit the fraud, there must be some sort of pressure to commit the fraud, and the person who commits the fraud needs to rationalize what they are doing (Gambrell, 2017).

Similar to the fraud triangle, the fraud diamond also contains pressure, opportunity, and rationalization; however, the fraud diamond additionally contains capability. Myers, Wolfe, and Dana Hermanson decided that for someone to commit fraud, he or she must also have the capability to do so (Gambrell, 2017). One can have all the components of the fraud triangle, but still might not be able to commit the crime because of the lack of capability. Capability means that the person committing the fraud has a position or the authority in the organization to commit the fraud. The person must understand the systems that the organization uses to commit the fraud. The person must also be resilient to stress, deceptive, and egotistic in nature (Gambrell, 2017). The fraud triangle/diamond can help explain many instances of fraud. In the WorldCom scandal, the CEO pressured the CFO, who then pressured other people below him. See Figure 2 for the WorldCom Fraud Diamond.

Figure 2

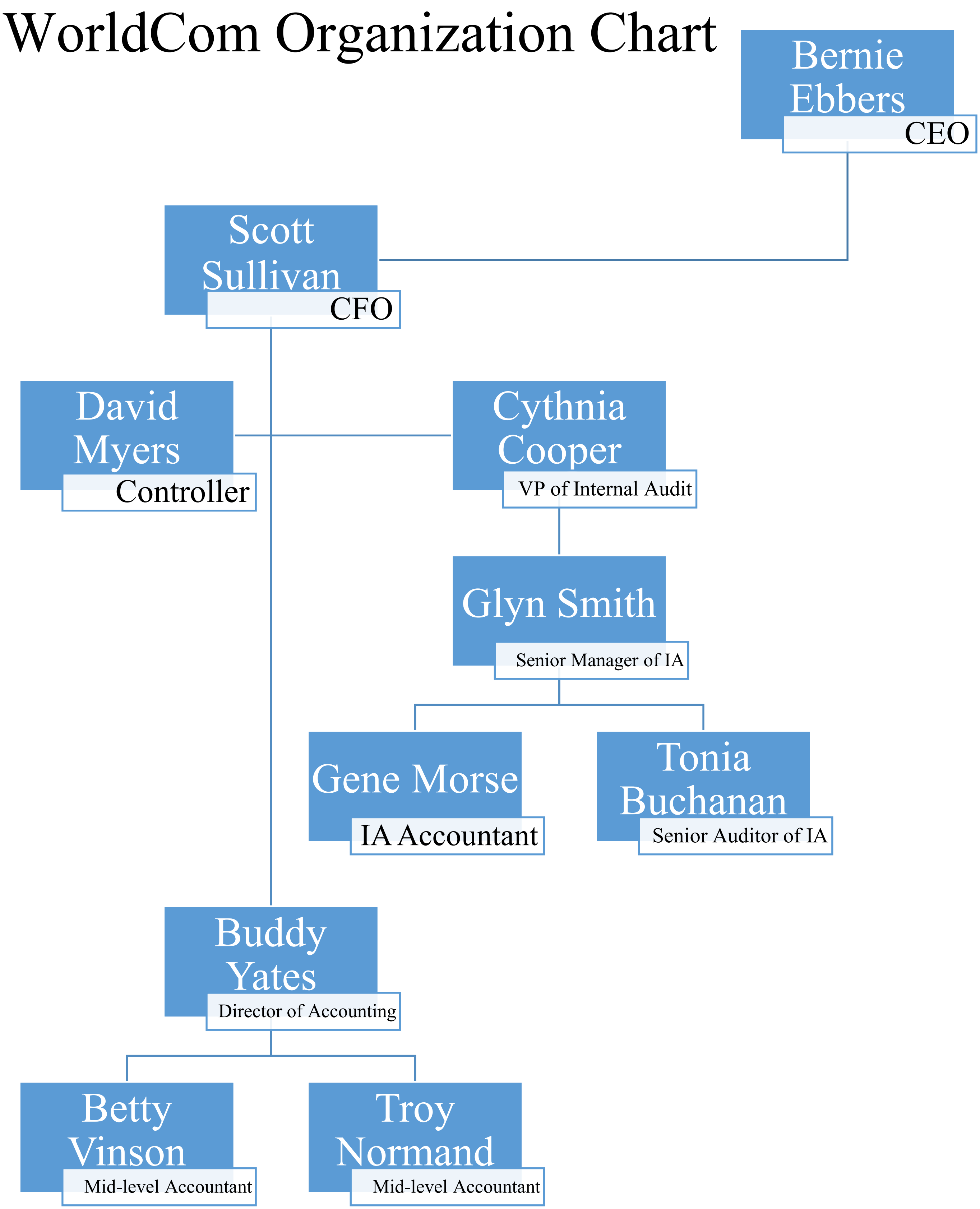


There were a variety of people involved in this fraud case. Bernie Ebbers was the Chief Executive Officer (CEO). Scott Sullivan was the Chief Financial Officer (CFO). David Myers was the Controller. Myers started out at Ernst & Whinney and eventually made his way to the corporate world in 1995. He has a wife and three children, two from a previous marriage. As Controller, Myers reports directly to the CFO, Scott Sullivan. Buford (Buddy) Yates was the Director of General Accounting. Yates joined WorldCom in 1997. Troy Normand and Betty Vinson were both mid-level accountants who reported to Yates (Cooper, 2009, pp. 1-9).

Myers and Yates were best friends, which is why Myers asked Yates to help him when the company ran into trouble. Myers then chose Normand and Vinson since they had access to all the accounts and were able to make the necessary adjustments. Normand and Vinson received pressure from their boss, Sullivan, to commit the fraud because the company was not going to meet the quarterly projections. Ebbers and Sullivan knew that if the company did not meet the projections, the company's stock price would take a hit. Normand and Vinson drew down the liability and expense accounts related to acquisition estimates. Normally these estimates are corrected once the exact numbers are determined, but some companies leave the estimates, so they have reserve amounts. Sullivan told them that they would only have to make false entries to increase the company's revenue once, and after the third quarter in 2000, everything would go back to normal (Cooper, 2009, pp. 6-8).

However, this was not the case. The quarterly earnings did not increase like Myers and Sullivan thought they would. Normand and Vinson were the ones with the opportunity and capability to commit the fraud. They had access to the accounts, unlike Myers and Sullivan. After making the first adjustments, Normand and Vinson wrote retirement letters, but they never submitted them. Both Normand and Vinson were the main source of income for their families and did not want to lose their jobs, which is how they rationalized changing the numbers. Ebbers and the threat of the company not meeting its quarterly earnings placed pressure on Sullivan. Sullivan did not have access to the systems to adjust the numbers, which is why he relied on Myers. Sullivan took advantage of the fact that he and Myers were good friends that Myers was his subordinate. Myers did take advantage of Yates and his subordinates in the same way. Myers justified his actions by thinking he was committing the fraud for the good of the company. Yates, Normand and Beth rationalized their actions the same way. All the employees involved had the opportunity or capability to commit the fraud, someone or something causing pressure to commit the fraud, and reasons to rationalize their actions (Cooper, 2009, pp. 1-9). See Figure 3 for the WorldCom organization chart, which includes key employees involved in the fraud.

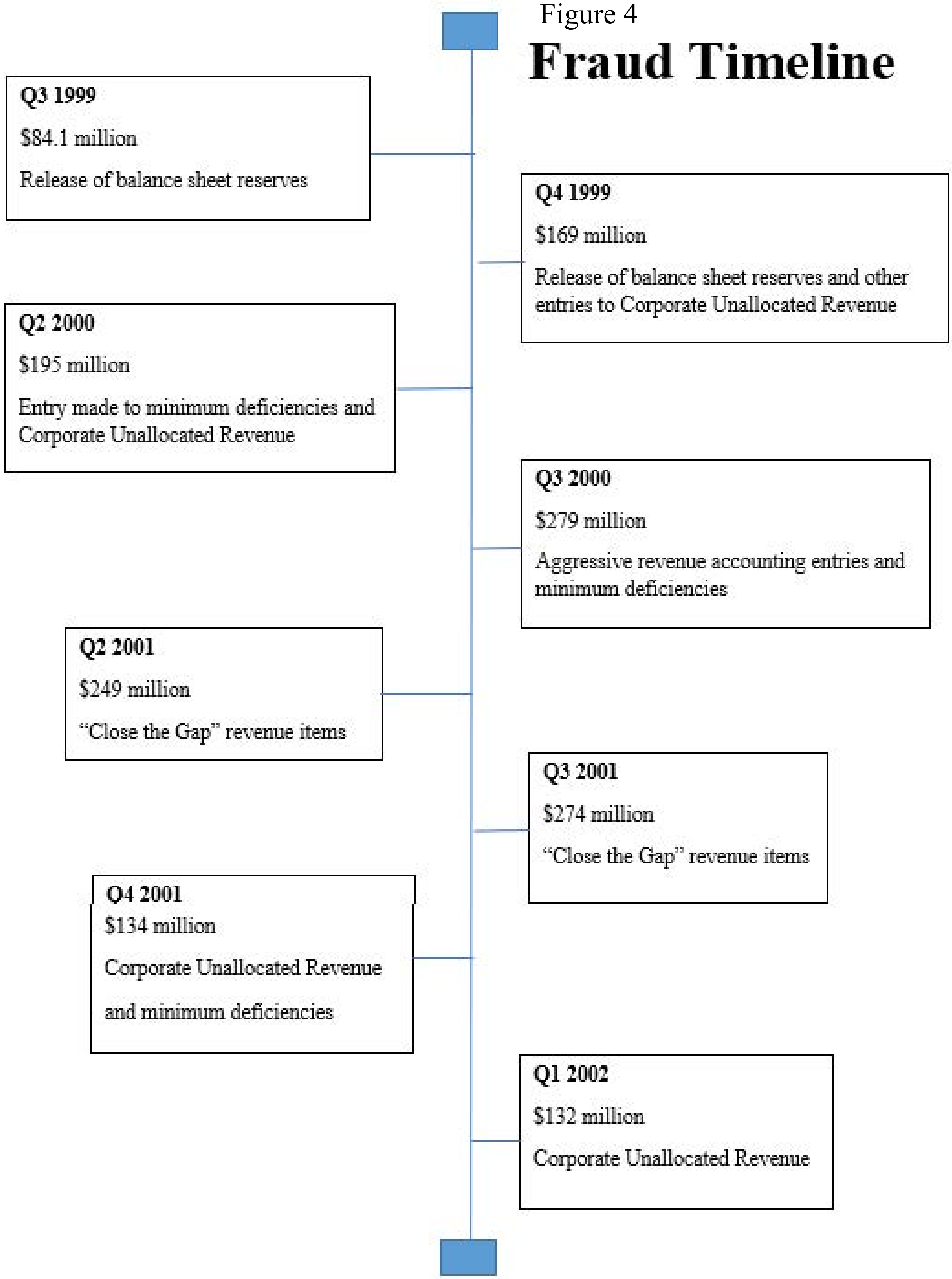
Figure 3


WorldCom Organization Chart
Bernie Ebbers
CEO
Scott Sullivan
CFO
David Myers
Controller
Cythnia Cooper
VP of Internal Audit
Glyn Smith
Senior Manager of IA
Gene Morse
IA Accountant
Tonia Buchanan
Senior Auditor of IA
Buddy Yates
Director of Accounting
Betty Vinson
Mid-level Accountant
Troy Normand
Mid-level Accountant

“The overall objective of Ebbers and Sullivan’s efforts was to hold reported line costs to approximately 42% of revenues (when in fact they typically reached levels in excess of 50%), and to continue reporting double-digit revenue growth when actual growth rates were generally substantially lower” (Beresford, 2003, pp. 9). WorldCom reduced reported line costs (the costs of carrying a phone call or data from its beginning point to its ending point) and exaggerated their revenues. WorldCom reported that personnel had transferred a total of $6.4 billion of line cost expenses to asset accounts between 2001 and the first quarter of 2002. The Special Investigative Committee of the Board of Directors of WorldCom, Inc. also found other improper transfers from 1999. These other transfers make the total misstated material to be over $7.0 billion (Beresford, 2003, pp. 9). Another $3.3 billion of line cost accruals were improperly released, which is how the company’s revenues were exaggerated. Accruals are amounts incurred but not yet reported, in other words, it is money set aside to pay expected bills. WorldCom adjusted the accruals by releasing some of the amounts without reason. Other times, the company would keep more accruals even when they should have been released. This allowed WorldCom to improve the reported results. WorldCom also released accruals that were not for line cost expenses. All these actions manipulated the company’s revenue to be more than it actually was (Beresford, 2003, pp. 10). Evidence and analysis did not support any of the adjustments or transactions (Beresford, 2003, pp. 11). See Figure 4 for the detailed timeline of the fraud components.

Figure 4

Fraud Timeline



While WorldCom was making these illegal adjustments to falsify revenue, their external auditor, Arthur Anderson, should have been able to detect the fraud. Auditors must follow a set of standards while performing their audits. One of these standards requires an auditor to perform their duties with professional skepticism.

The article titled *Effectively Applying Professional Skepticism to Improve Audit Quality* by Richard Coppage and Trimbak Shastri discusses the importance of keeping a skeptical attitude in the auditing world. Professional skepticism is an attitude that consists of a mind that is questioning. An auditor must perform an audit while watching out for possible misstatements. The auditor also needs to analyze the audit evidence to determine if it is appropriate and sufficient. The auditors need to remain alert to anything during the process that could lead to material misstatement. The auditor should not assume anything from management, including what they have said or provided is all correct information. Reminding auditors to maintain a skeptical attitude throughout the audit is an important task. Auditors need to be efficient throughout the different engagements in order to maintain the skeptical attitude. The work that the auditors do requires documentation to ensure that they completed the audit with a skeptical attitude.

Due to the lack of professional skepticism that Arthur Anderson had, WorldCom employees continued to falsify the company's revenues for a few years. There was no evidence supporting the entries that Normand and Vinson were making. If Arthur Anderson performed the audit of WorldCom's financials while being alert to possible misstatements, they would have found accounts that the firm had never seen before. Arthur Anderson could have found the significant amount of transactions that were increasing revenue by asking for evidence pertaining to the entries made to the "minimum deficiencies" account. Sample testing would have revealed the lack of evidence and the possible fraud. Because of the material misstatements found by the internal audit team, several WorldCom employees, including the CEO, were under investigation by the SEC and the FBI.

Ebbers trial began on January 25, 2005 (Cooper, 2009, pp. 326). Ebbers continuously denied his involvement in the scandal. The only evidence that would show he was involved was his conversations with Sullivan about adjusting the report to meet the quarterly earnings. Sullivan worked with the prosecution to build their case for hundreds of hours, as well as, testifying for eight days. Sullivan testified that Ebbers had knowledge of him adjusting the expenses and revenues to meet the earnings. Sullivan said that Ebbers kept telling him "we have to hit the numbers" (Cooper, 2009, pp. 339). Sullivan also testified that during the scandal, he lied to auditors, the Audit Committee, in-house legal, his co-workers, WorldCom's board of directors, and to the U.S. Government. The defense argued that his testimony is not credible because he is a liar (Cooper, 2009, pp. 342). The prosecution called Cynthia Cooper, VP Internal Audit, as a witness. The questions asked focused on Sullivan since he was the one who dealt directly with Ebbers during the scandal. The defense asked questions to show that Sullivan was the one at fault for misleading Arthur Anderson, not Ebbers (Cooper, 2009, pp. 334).

Myers testified that Ebbers apologized to him for making him adjust the numbers and commit the fraud. Ebbers also told him that Myers and his staff should not have been put in that position and they would never have to do it again, even though they did (Cooper, 2009, pp. 340). Although it can be harmful to a defendant's character to take the stand, Ebbers took the risk (Cooper, 2009, pp. 337). Ebbers denied any of the conversations that Sullivan and Myers mentioned ever took place. He continuously testified that he was not aware of the adjusting entries made and that he was in awe when WorldCom's general counsel told him about the scandal after the Internal Audit department brought it to their attention (Cooper, 2009, pp. 345).

After eight days of deliberation, the jury concluded that Ebbers was guilty on nine counts (Cooper, 2009, pp. 351). The nine counts consisted of "one count of conspiracy, one count of securities fraud, seven counts of filing false statements with the SEC—one for each quarter's financial statements during the time the government alleges fraud" (Cooper, 2009, pp. 326). Ebbers is serving 25 years in prison, or basically a life sentence for a 63-year-old. The sentencing guidelines state for a white-collar crime, the sentencing is 30 years to life in prison, but due to the countless letters stating Ebbers's good character, the judge reduced the recommended sentence (Cooper, 2009, pp. 356). Although 25 years is a long time for an act of fraud, Ebbers did not plead guilty like the others, he was the CEO and had responsibility for his employees actions, and the scandal amounted to well over $100 million of losses for investors (Cooper, 2009, pp. 358).

Sullivan, Myers, Yates, Vinson and Normand all pled guilty and agreed to cooperate with the prosecution for Ebbers's trial (Cooper, 2009, pp. 326). If they did not cooperate with the prosecution, Sullivan could have faced up to 25 years; Myers could have faced up to 20 years; and Normand and Vinson could have each faced up to 15 years in prison (Cooper, 2009, pp. 327). Normand served three years of probation. Vinson served five months in prison and five month of house arrest. Their cooperation with Ebbers's case reduced both of their sentences. Yates served one year and one day in prison. The judge made the sentence for more than a year because that is the only way that Yates can reduce his sentence with good behavior (Cooper, 2009, pp. 353). Myers also received one year and one day in prison as a sentence. Normand, Vinson, Yates, and Myers all apologized for their actions and said he/she would never do anything like this again (Cooper, 2009, pp. 354). Sullivan served five years in prison. The prosecution sent a letter to the judge stating that he was the key to Ebbers's prosecution. Sullivan's cooperation and the fact that his wife was severely ill, and she needed help taking care of their daughter greatly reduced his sentence. (Cooper, 2009, pp. 355). Without the help of Cooper, and a few others, Ebbers, Sullivan, Yates, Normand, and Vinson, could have continued with the fraud. While conducting an audit, Cooper found accounts that she did not recognize. Further examination revealed the fraud.

Internal audit is a department in a company designed to evaluate internal controls, ensure the company is incompliance with law and regulations, and helping with the operational efficiency. Internal audit at WorldCom was integral to discovering the fraud. Cooper accepted a position as an audit manager at WorldCom in October of 1993. From the start, she wanted to change the reporting structure, so she reported to the Audit Committee to avoid conflicts with management, and have the CFO oversee internal audit and approve of raises and new positions. She also asked for the title of Director and she asked to hire more auditors, but the company declined her requests. Since the last manager was more focused on the acquisitions the company makes rather than internal audit, Cooper had to show the current employees the benefits of auditing the different departments (Cooper, 2009, pp. 91-93).

After six months in her new position, she went to her first Audit Committee meeting where she notified them that she only had one auditor and there were some sections in departments that were lacking efficiency and needed updates. With all the acquisitions, the company has weak internal controls and repetitive operations. She gave the list of findings from the audits to the Audit Committee even though the members have never received anything like that before (Cooper, 2009, pp. 100).

In September 1994, Cooper was able to hire an experienced auditor, Jon Mabry. Eventually, the first report presented made a difference. Ebbers and his management team started to make the suggested changes in the audit reports. Even though Cooper had only been with the company for about a year, her work made notable changes and Ebbers asked her to help pick a consulting firm to assist in the suggested changes (Cooper, 2009, pp. 102-105). Cooper and Mabry created an internal audit charter with policies and procedures signed by the Audit Committee for approval. She, again, asked for more auditors, and again, Ebbers declined her request (Cooper, 2009, pp. 108-109). In 1995, Ebbers denied Cooper's promotion to the director level because she fell out of favor with him.

Cooper hired a new information technology auditor, but the IT auditor left WorldCom to go back to her previous employer after a few months. After the IT auditor left, the only other staff auditor also left the company. In order to retain Mabry at WorldCom, Cooper promoted him to Manager even though they had no staff level auditors. Although the relationship between Cooper and Ebbers was tense, she was eventually able to hire two staff auditors, but that still was not enough for the workload that they had to complete (Cooper, 2009, pp. 113-114). Cooper had to constantly battle to show why her and the internal audit department were critical in the success of the company. She took all of Ebbers's comments into consideration, even if they did not make sense, and she held a meeting to explain internal controls to him (Cooper, 2009, pp. 120-121).

After three years, Mabry left the Mississippi location to fill a position in Dallas. Mabry quickly moved from Manager to Director to Senior Director in the new office. Cooper received a promotion to the Director position in 1997 (Cooper, 2009, pp. 145-148). In 1999, Cooper received a promotion to Vice-President of her department (Cooper, 2009, pp. 167). Eventually, Cooper was able to hire more accountants, but it never seemed to be enough for such a large company and the amount of work required.

Cooper continued to work and oversee her staff and managers. Cooper and her staff were constantly busy with trying to set internal controls and complete audits of each department. Normally, the audits were completed in a specific order, however, when an outside source shed light on one of WorldCom's departments, Cooper decided to move up the audit.

In May of 2002, Glyn Smith, a senior manager in the WorldCom Internal Audit department, brought Cooper an article that a former WorldCom financial analyst wrote. Kim Emigh, the financial analyst wrote the article said that some vendors were billing WorldCom large amounts for minor service charges, some vendors were charging for brand new equipment, but sending used equipment and some contractors charged bills for jobs that WorldCom was not even performing. After reading the article, Cooper had Smith perform an audit of the capital expenditures. Capital expenditures is money spent by the company to purchase or maintain equipment, or other fixed assets (Cooper, 2009, pp. 223).

Cooper, Smith, Tonia Buchanan, a senior auditor, and Sanjeev Sethi, a Finance Director, sat in a conference room to go over some discrepancies between two of the capital-spending schedules. Sanjeev explained that some of the difference related to an account titled "prepaid capacity" but none of the auditors had ever heard of such account. Sanjeev told Cooper to ask David Myers what the account was since Myers is the one that provides him the numbers for that account. Cooper recruits another auditor, Gene Morse, to assist in finding all amounts in the system relating to "prepaid capacity." Mark Abide, the man who forwarded the article to Smith, told Cooper three places where those entries occurred, and that Vinson tells him were to book them. Morse managed to find where the entries trace to by using a system tool he had been testing (Cooper, 2009, pp. 226).

Through their research, Cooper, Smith, Buchanan, and Morse discovered that the prepaid capacity amounts transferred from account to account. They found that amounts in the line-cost expense accounts transferred into asset accounts, which increased the company's profits. After a few days of continuous research, Myers reached out to Cooper to find out why she was digging into capital expenditures. Eventually after numerous long nights spent at the office, hiding the findings of the audit, and many uncomfortable emails and phone calls with Sullivan, Cooper questioned Vinson, Yates, and Myers, but no one was able to provide a reason or evidence for the entries. Cooper notified the external auditor on the case and one member of the Audit Committee, and after a few more days, the whole Audit Committee received notification about the transfers from expenses to assets.

When Cooper notified the members of the Audit Committee, she became known as a whistleblower. A whistleblower is a person who identifies unethical or fraudulent activity or behavior and then reports the information or does not participate in the illegal actions. Normally, with the term whistleblower there is a negative connotation along with it. People hear the term and believe that the whistleblower causes the damage to the company or the brand. Although the whistleblower is the one that notifies someone of the deception, the whistleblower is not the one that is engaged in the illegal acts. The word whistleblower sounds like an alarming word, which also contributes to the negative connotation (Blocher, 2019). Since the cases that involve the whistleblowers take several years, it takes a toll on them. Most people who blow the whistle on their company end up depressed or an alcoholic. A few past whistleblowers have lost their jobs, families, and/or houses. Although there are laws to protect these people, most companies make them feel like outcasts or humiliate them until they eventually leave the company (Cooper, 2009, pp. 312-313).

Time Magazine interviewed Cynthia Cooper, Sherron Watkins, and Coleen Rowley for 2002 Persons of the Year. Cooper was not ready for the press to surround her and take a magnifying glass into her life, but she was excited to meet two other people who are whistleblowers. Sherron Watkins was vice president of Enron's Finance department. She warned Enron's CEO about suspicious accounting. She received threats, moved out of her office into a smaller, beat-up office, and someone stole the hard drive on her computer. The company considered firing her and someone called to blame her for the suicide of an employee. Watkins ended up leaving the company less than a year after she blew the whistle. Coleen Rowley was an attorney for the FBI. She sent a message to the FBI Director and two Senators on the Senate Committee on Intelligence stating that her office had sent information to higher-ups about an international (French-Moroccan) person who registered for flight school even though proper review of the information did not occur. Since she released this information to Congress, many people were not happy with her. She also received threatening phone calls. In the *Time* Magazine article, Rowley stated, "loyalty to whoever you work for is extremely important. The only problem is it's not the most important thing." (Cooper, 2009, pp. 309-311)

Whistleblowers are vital when dealing with ethical violations or any other wrongdoing. The whistleblower has the inside position to know what is going on in the company. Even if the whistleblower just has suspicions, he/she is still able to report it. In order to encourage employees to come forward about fraudulent activities or potentially fraudulent activities, there is an anonymous hotline for people to use (Blocher, 2019). The Sarbanes-Oxley Act (SOX) makes it a felony for retaliation on anyone who comes forward to report suspected violations of federal law (Messier, 2017). Section 301 of SOX requires companies to establish procedures that allow employees to anonymously notify the company of questionable accounting matters. The Securities and Exchange Commission (SEC) also adopted this requirement, which is defined in Exchange Act Rule 10A(m) (Kelly, 2017). Identification of the wrongdoing may not occur, or it may take a long time to find without the help of whistleblowers. Even external auditors may not be able to determine fraud if the person committing the act covers his/her actions, which is why it is important for people to speak up (Blocher, 2019).

Cooper had a difficult time coping with being a whistleblower at first. Without the help of her family and friends, she would not have been able to pull through her tough time. She took her experience about being a whistleblower and decided to give speeches at schools. Her goal is to prepare students for the workplace and be honest about the difficulties of being a whistleblower. Even though there are rights and laws to protect whistleblowers from being fired, employers and fellow employees can still make their work life horrible. Most whistleblowers receive more work and mistreatment from co-workers. People will blame the whistleblower for the company's struggles, even though it is not their fault. Multiple studies have shown that most whistleblowers suffer from alcoholism and depression likely related to this mistreatment. Cooper relied on her husband and children to bring the positive attitudes into her life during those dark times. She now shares her experiences with anyone who is willing to listen. Cooper wrote the book *Extraordinary Circumstances: The Journey of a Corporate Whistleblower* to help her heal through the process. At first Cooper wanted to put the experience behind her, but she realized that it will always be a part of her. She wrote the book to help other people learn the lessons that she has learned through her journey. Although it was a long journey for her, she said she has finally found peace (Cooper, 2009, pp. 312). Cooper stresses the importance of educating students on the importance of ethics and leadership. She wants to help students recognize an ethical dilemma and learn how to deal with it (Cooper, 2009, pp. 364).

After Cooper blew the whistle, she continued to work for WorldCom. She and Smith traveled back and forth to Washington and New York to assist in the investigation. WorldCom had all new Audit Committee members and executives. The company replaced all the old executives and changed its name to MCI. The company then moved its headquarters to Virginia (Cooper, 2009, pp. 320). Although the company filed for the largest bankruptcy in history, the company emerged from it in 2004. After she helped all her team members find work elsewhere and helped the company emerge from bankruptcy, Cooper left the company in 2005 (Cooper, 2009, pp. 323). Rather than accepting one of the job offers she had to work for other organizations, Cooper wrote a book, started a consulting firm, and started to share her story at different schools and universities (Cooper, 2009, pp. 364). Cooper even visited Ball State University in 2007 to speak during the university's ethics week.

Although Cooper's journey was a long a difficult road, she still would have blown the whistle. Cooper's decision to unveil the fraud significantly affected WorldCom and all the employees, but she could not let it continue to happen. Cooper had set moral standards for herself that she could not violate. Morals set the benchmark for the ethical standards followed in the workplace.

Ethics are necessary in a business because they guide the behaviors and actions of an organization and the people. Ethics in an organization improve individual's loyalty and the morale. Having noteworthy ethics in a business can help the company profit. If the company is known to be ethical, they will gain more clients, and people will be more willing to invest in the company verses a company that is known to be unethical. For the public to view a business positively, the business must have clear and stated ethical standards that employees follow. Management can lead by example for the company to follow. Employees are more likely to follow certain standards if management also follows them. If management succeeds in creating strong ethical behavior standards, the company has “the ability to attract and retain highly talented individuals and build and maintain a positive reputation within the community.” Morale and efficiency increase when management can create this ethical environment (Horton, 2019, pp. 1-5).

It is important to incorporate ethics into education to better prepare students for situations that can arise in their professional careers. Discussions in education about unethical behavior can open the eyes of students to possible pressures that they may receive in the workplace. Exposing students to past cases or even situations that turned out to be white-collar crimes can give them an idea of the consequences of unethical behavior. Students need help to instill ethics within themselves as well as assistance in following the ethics of the company. Students need education on why setting ethical standards for himself/herself and not breaking those standards is important. If these ideas are not taught in the education system, more people are at risk for committing actions that could have serious consequences.

Although some actions may be legal, they may not be ethical. An example of this would be how pharmaceutical companies raise the price of a certain drugs. It might be legal to do this, but it is unethical because it becomes unaffordable for people that need that medication to survive. A company should create a code of ethics and explain how it aligns with the company’s culture. By doing this, employees have a set of guidelines to follow. If employees ever question what employers ask them to do, they can refer to the guidelines to see if it fits in the company’s ethical standards.

All accountants have a certain code of ethics to follow called the Code of Ethics for Professional Accountants. The code has five principles which are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. The integrity principle states that an accountant should be honest and direct with all business relationships. An accountant should be impartial and unbiased when working. Accountants should maintain professional leadership and provide accurate information. Due care indicates, that the accountant uses the skill and care that is expected of them to perform their duties. The confidentiality principle stated that the accountant must keep information confidential and inform all the people that are relevant regarding confidential information. All accountants should maintain professional behavior and perform tasks in accordance with laws and regulations (Revised, 2019, pp. 1-2).

Other than the standards that accountants need to follow, companies must implement and maintain internal controls. Internal control weaknesses are the main reason fraud is possible. Without the proper controls in place, an employee who writes checks, can also have the power of writing themselves a check if no one is overseeing the purchases made. The company's use internal controls to ensure accurate calculation and records of information. In some instances, management can override the internal controls, which causes a weakness in internal controls. Human error is another internal control weakness that companies face. If there is a lack of segregation of certain duties in a company, this creates another significant internal control weakness (Messier, 2017).

WorldCom had several internal control weaknesses including, management overriding the system, lack of internal audit staff, Audit Committee's lack of knowledge, top employees avoiding implementation of controls and many more. Since management was able to override the system, there are essentially no internal controls. Management told their inferiors what entries to make and gave no evidence to support these adjustments. The small internal audit staff was another internal control issue. WorldCom grew into a large company, yet Ebbers would not let Cooper hire more auditors. This left the internal department team over worked and less efficient. After the investigation of the scandal, it was determined that the Audit Committee did not understand the company's internal financial reporting or the culture of the company. The members of the Committee only spent time in their roles for three to five hours throughout the entire year. There was no oversight of the internal controls or the financial reporting. Cooper attempted to implement internal controls, but Ebbers gave her a hard time and would not listen. She kept trying and eventually she was able to implement a few, but the company needed more (Beresford, 2003).

Due to all the large fraud schemes and lack of internal controls, the Public Company Accounting Oversight Board (PCAOB) formed in 2002 to deter material weaknesses in internal controls of public companies. A few studies have examined issues such as "characteristics of companies reporting material weaknesses and the relationship between material weaknesses and earnings quality" that are related to material weakness reporting. The SEC required companies to comply with Sarbanes-Oxley Act (SOX) 404, which came with high costs and obstacles, but from 2004 to 2010 there was a significant decrease in internal control weaknesses. SOX 404 requires management to report and assess the internal controls of the company. External auditors must also review management's assessment to determine if the controls are effective. If controls are not effective, management will be notified and the risk of the audit is increased (Kiley, 2019).

If management at WorldCom had assessed and reported on the internal controls of the company, this scandal may not have been possible. There was negligence from the external auditor and from the Audit Committee in this case. If management found a way to manipulate the internal controls, the external auditor should have been able to discover the fraud when conducting certain sampling tests. The internal control weaknesses that WorldCom had, allowed the fraud to occur. If the PCAOB required SOX 404 at this time, the CEO would have made the adjustments that Cooper suggested, and WorldCom may not be known as the largest bankruptcy and accounting scandal in the history of the United States.

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